

**AUDIT COMMITTEE
 27 JANUARY 2014**

PRESENT:

Councillors Mrs E J Sneath (Vice-Chairman), N I Jackson, C E D Mair,
 S M Tweedale, W S Webb and P Wood

Councillors: attended the meeting as observers

Officers in attendance:-

Debbie Barnes (Executive Director Children's Services), Sara Barry, Zoe Butler (Head of Customer Services), Julie Castledine (Principal Auditor), Paul Coathup (Assistant Director Highways and Transportation), Tony Crawley (KPMG), David Forbes (Assistant Director Finance and Resources), Stephanie Kent (Audit Manager), Pete Moore (Executive Director Resources and Community Safety), David O'Connor (Executive Director Performance and Governance), John Sketchley (Audit Manager), Tony Warnock (Head of Finance - Children's and Specialist Services) and Rachel Wilson

39 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Mrs S Rawlins.

40 DECLARATION OF MEMBERS' INTERESTS

There were no declarations of interest at this point in the meeting.

41 MINUTES OF THE MEETING HELD ON 11 NOVEMBER 2013

RESOLVED

That the minutes of the meeting held on 11 November 2013 be signed by the Chairman as a correct record.

42 CORPORATE AUDIT PROGRESS REPORT TO 31 DECEMBER 2013

Consideration was given to a report which provided an update on progress made against the Audit Plan 2013/14.

It was reported that the audit testing on the contract management activities with Public Health had been completed, and a due diligence audit had been scheduled for February 2014. It was noted that there was some significant work taking place in Public Health.

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The Committee was informed that reasonable progress had been made against the internal audit plan with 56% of the planned work for the year being completed. Remaining audits were scheduled in for the rest of the year and temporary audit resources to help complete the work had been engaged.

Since the last progress report, 5 County Council audits had been completed, 2 of which had resulted in limited assurance and one system which had received a split assurance. A further 27 County Council audits were in progress and 9 of these were at the draft report stage. Changes to the plan were agreed at the meeting in November 2013 due to long term sickness and vacancies, since that date a long serving member of staff sadly passed away and this vacancy would be carried forward into 2014/15. A Principal Auditor had also been recruited to the team and they would be taking the lead on Adults and Public Health.

At the last meeting, Members raised a concern regarding the level of audit work being undertaken in Public Health and as a result, the package of due diligence work had been increased with work covering payroll; awareness of LCC processes; budget holder awareness of responsibilities, processes etc.; testing of orders and payments and budget monitoring.

Three of the audits which had been completed had received substantial assurance, and three had received limited assurance. There were very few outstanding recommendations.

Senior officers representing Trading Standards and the Customer Services Centre were in attendance in order to reassure the Committee that the actions identified were being implemented.

Members of the Committee were provided with the opportunity to ask questions to the officers present in relation to the information contained within the report and some of the points raised during discussion included the following:

- Trading Standards had seen a significant reduction in budget (40%) since the Core Offer, and so had had to review the way that work was carried out. As well as a reduction in the number of staff, there had been a move from staff working in a specialised team (e.g. animals) to a more generic team. The strategic priorities for the Service had been identified and there were now 25 staff who were spread over four sites. It was noted that Lincolnshire was one of only a few authorities who still had trading standards staff in multiple sites;
- Concerns were raised regarding the increased use of 'legal highs' and the impact they were having in particular wards. The Committee was advised that one of the benefits of Trading Standards being within the remit of Community Safety was that there could be more joined up working on this. there would be a big information programme run involving teachers, carers and social workers. It was noted that 'legal highs' were increasingly being used by adults as well, and trading standards would be using every method they could to try and prevent them from being available;
- The management actions identified in the audit were being completed, with the exception of the outcome measures, as these had not yet been finalised. This

- had been identified as a key risk and would be included in the work programme for the coming year;
- The four Trading Standards teams were based in Lincoln, Boston, Grantham and Louth. It was noted that a further team based in Skegness would be useful as staff undertook a lot of summer work there;
 - There was a move back to teams carrying out work based around the key strategies, with some general work as well;
 - If there was another major trading standards issue such as the horsemeat incident, additional resources would be made available. There was a lot of joint working with the district councils which worked well;
 - Key risks were around managing public expectations, but since the core offer there was more resilience and flexibility around the staff. However, it was noted that a lot of the older, more experienced staff were lost from the team during the Core Offer process;
 - A transformation plan had started to be developed for the Customer Service Centre, as management were keen to modernise it. The areas which had been picked up by the audit were mainly around the customer experience, and so there was now a move away from the traditional performance measures such as the time taken to answer the phone. It was important to ensure that the right things were being measured. The Customer Service Centre staff used between 5 and 9 different IT systems, which required a lot of training, and so when an enquiry was received staff would often need to update several different systems;
 - Calls which related to Adult care or Children's Services were currently all recorded, but there was a move towards all calls being recorded;
 - Members were assured that the audit recommendations would form part of the transformation plan;
 - The Plan would be monitored by the Value for Money Scrutiny Committee;
 - The Customer Service Centre received 750,000 contacts per year, and there were 126 FTE staff based there, the majority of which were frontline advisors;
 - The management actions had not yet all been completed, however, it was noted that they were not all quick to implement, e.g. the IT systems, but they were all part of the transformation plan. The actions which could be implemented quickly would be;
 - The actions would be followed up as part of the tracking process;
 - In terms of the third audit where assurance was assessed as limited – Income – Business Support and Schools, it was noted that the problem area in terms of compliance was schools. The change from SAP to Agresso would be a challenge as every operator would need to be retrained on the new system. This training would also pick up the other weaknesses which had been identified in the audit. The system change would start in April 2014;
 - It would be up to schools to decide what financial system they used, however, most schools were currently using SAP, but they could choose to operate independently;

RESOLVED

That the outcomes of the Corporate Audit Work be noted.

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43 EXTERNAL AUDIT PROGRESS REPORT

The Committee received a report from the Councils External Auditor which provided an update on progress of work performed during the interim audit stage for the County Council and Pension Fund audits, as well as work planned for the next quarter.

Members were advised that the 12/13 work had just been completed, and the arrangements for the FDSS contract were in the process of being reviewed for the purposes of the VFM conclusion.

It was noted that the accounts closure would need to be done very quickly as SAP was scheduled to be switched off at the end of June 2015. This would only give 3 months to close the accounts in 2015.

RESOLVED

That the progress report be noted.

44 SUPPORTING SOUND FINANCIAL MANAGEMENT AND INTERNAL CONTROLS IN SCHOOLS AND ACADEMIES

The Committee received a report which provided an update on the ways in which Children's Services, the Mouchel Schools' Finance Team and Internal Audit supported schools to improve their financial management and internal control arrangements. The report also provided information on the assurance framework set out for academies by the Education Funding Agency.

Members were reminded that a report was provided in June 2013 on the work with schools during 2012/13 which highlighted an increase in the number of schools given Limited Assurance following an audit visit when compared with previous years. The Committee asked how the Authority worked with schools to address the issues identified by the audits, and the report presented provided details of this. It was noted that whilst officers were able to influence and advise schools, delegation meant that a school's Headteacher and governing body were ultimately responsible for ensuring that arrangements were adequate and protected staff, the school and the public purse.

The Committee was provided with the opportunity to ask questions to the officers present in relation to the information contained within the report and some of the points raised during discussion included the following:

- It was commented that one thing missing with self-reporting was which governors had attended training and when that training had taken place;
- Clarification was sought regarding delegation of responsibility and local authority risks in terms of maintained schools;
- Maintained schools reported through their financial statements and the authority would work with them in the event of any overspends. It was

ultimately up to the governors of the school to manage any budgets which were allocated to a school. The local authority could not write off any overspends;

- The monitoring role for the authority was very important, and it had the right to enter and inspect the accounts of a maintained school at any time. Schools did work in a tight control environment if they were using SAP. The withdrawal of the delegation was one action which could be taken if the governing body was not functioning correctly;
- In relation to SFVS (Schools Financial Value Standard), it was queried whether there were adequate controls in place to guard against fraud and theft;
- It was reported that there were only two schools which failed to complete the SFVS, and a follow up check was requested;

It was suggested that as this was such a wide topic, whether it would be beneficial to hold a workshop for members of the Committee on risk management in schools

RESOLVED

1. That the content of the report be noted;
2. That a workshop on risk management in schools be arranged and added to the work plan.

45 COMBINED ASSURANCE STATUS REPORTS

Consideration was given to reports which provided an insight on the assurances across the Councils critical services, key risks and projects.

The Committee was guided through each assurance report by a senior officer and provided with an opportunity to ask questions in relation to the information contained within each report, and some of the points raised during discussion included the following:

Communities (presented by the Assistant Director Highways and Transportation)

- There was only one area which was identified as red, which was in Regeneration, which was mainly the Sutton Bridge Marina project, which had complex land ownership and legal issues which were outside of the authority's control, officers were working hard to resolve this;
- The assurances reported were on the processes and systems which were in place to deliver the work;
- The Highways and Transport Scrutiny Committee received regular updates on the performance of the Highways Alliance;
- Members were pleased with the support which was in place in respect of flood alleviation;
- An investigation into recent flooding events had been commissioned and published;

Resources and Community Safety (presented by the Executive Director Resources and Community Safety)

- Progress had been made in terms of overall assurance status;

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- The only area identified as red was in internal audit, but officers were confident that the action plans which had been put in place were more than adequate to deal with this issue;
- It was noted that the authority would be facing a period of change in the coming 12 months including the procurement of support services and systems;
- It was commented that it was an excellent report and contained a lot of information;

Children's Services (presented by the Executive Director Children's Services)

- An ofsted visit was due in relation to early help and safeguarding;
- Further details were requested in relation to the next steps identified in the report;
- Officers would be looking for what issues were picked up on in ofsted inspections of other authorities and ensuring Lincolnshire's arrangements met requirements;
- There had been some very high profile cases from serious case reviews ;
- The Lincolnshire Safeguarding Children's Board did have a risk register and this was reviewed at every meeting;
- Clarification was sort regarding the methodology for how assurance was given, and it was reported that the Executive Director had a huge raft of data at their disposal including ofsted reports, peer reviews, and significant amounts of performance information, which was used in agreeing the assurance level;
- The 5-11 age group was covered by the school improvement service;
- 15 hours of early education was important in areas of deprivation and a national requirement. There was a new initiative that 40% of two year olds in deprived areas should have access to good or excellent nursery care. The DfE had provided a £850,000 grant to provide capital support to the two year old offer, and there were four significant projects underway, but it was more about making smaller changes to offer more places;

RESOLVED

That the current status of the Executive Directors' assurance regime be noted.

46 COUNTER FRAUD PROGRESS REPORT TO 31 DECEMBER 2013

Consideration was given to a report which provided an update on the Council's fraud investigation activities and information on progress made against our Counter Fraud Work Plan 2013/4.

It was reported that since the last meeting, the data analytics capabilities had been developed on a joint fraud proactive/due diligence exercise on expenses and member allowances. The detailed testing which arose from this work was now complete and a report of findings was being prepared. Members were advised that there had been some slippage on the counter fraud awareness campaign due to

investigative demands, due diligence commitments and the need to co-ordinate promotional work with the development of the e-learning tool and website updates.

Work on the National Fraud Initiative was now complete, and the only area to still be uploaded to the NFI system related to Blue Badges. The Business Support Team had validated the matches in the area and the results would be posted shortly.

In terms of investigations, there were currently two fraud investigations with the Police; three cases had been investigated since the last meeting of this Committee, these cases have now been closed; the team was currently investigating five cases of suspected fraud.

It was reported that the Home Office had announced the closure of the National Fraud Authority from 31 March 2014, and the Authority's responsibilities would be realigned to reflect the creation of the National Crime Agency which became operational in October 2013. It was also announced in the Autumn Statement that new funding would be made available to councils to tackle non-benefit fraud. It was still to be decided by ministers how to distribute this two year funding, but if shared equally across all councils it would mean an additional £25,000 per year for the next two years.

Members were provided with the opportunity to ask questions to the officers present in relation to the information contained within the report, and some of the points raised during discussion included the following:

- It was acknowledged that sometimes it could be very difficult to get the police involved, which was why the authority had trained investigators who knew how to collect evidence which would be admissible in court. The authority would always carry out its own preliminary enquiries before contacting the police;
- Lincolnshire Police no longer had a trained fraud officer, and this could be a very complex and specialised area of policing. However, there was an Economic Crime Unit, and if there was a very complex case this unit would be contacted;
- Internet crime had been identified as a growing area, and there were some resources available at a regional level for tackling this;
- It was suggested that the whistleblowing process would be a good subject for a councillor development session which would be open to all members of the council;

RESOLVED

1. That the outcomes of the counter fraud work be noted;
2. That the possibility of holding a Councillor Development Session, open to all members, in relation to the whistleblowing process be examined.

47 UPDATED ANTI-MONEY LAUNDERING POLICY

Consideration was given to a report which covered the key aspects of the revisions to the Anti-Money Laundering Policy, explained the legal obligations on the Council and clarified the arrangements for raising awareness. It was noted that this policy

revision did not contain any new legislation and replaced the anti-money laundering statement and procedures, 2007. The revised policy aimed to clarify the legislative requirements and the responsibilities of the council, its key partners and employees; explain the relevant criminal offences; defined the reporting arrangements (internal and external) and expected response; provide a list of possible indicators of money laundering activity; and use plain English.

It was intended to promote this policy alongside the authority's counter fraud and whistleblowing awareness programme and supplement with targeted training for those staff groups most likely to encounter money laundering. It was noted that the authority had strong counter fraud and whistleblowing arrangements and so the risk to the council remained low.

Members commented that the document was very thorough and the importance of raising awareness was highlighted. These messages needed to be consistently reinforced.

These policies were applied to all strategic contracts. It was noted that both tenders for the FDSS contract required disclosure of this policy.

RESOLVED

That the content of the policy revision be noted.

48 UPDATE ON ANNUAL GOVERNANCE STATEMENT 2013

Consideration was given to a report which provided the Committee with information on the annual review of the Local Code of Governance and progress on agreed actions contained in the Council's Annual Governance Statement 2013.

Members of the Committee were provided with the opportunity to ask questions to the officers present in relation to the information contained within the report, and some of the points raised during discussion included the following:

- Members commented that it was a very well written and straightforward document;
- A report would be going to full Council in February 2014 regarding new monitoring officer arrangements;
- In terms of the Senior Leadership Programme, it was reported that there were a lot of managers who were just below Head of Service level entering this programme, as senior managers were too busy to attend. However, this was starting to develop future leaders;
- It was important to manage the expectations of members and the public in terms of what the council was able to do;
- The Sustainable Services Review would involve huge changes for the authority. The future governance framework would be quite complex;

- There was a synergy between assurance reports from executive directors and the Annual Governance Statement;
- Becoming a commissioning council would be a method used by the council to meet the financial challenges. The authority would redesign what it did, it would not stop doing things, but it would change the way that services were delivered. There would be closer working with health, and more effective working with district councils;
- Reviews of services would take place and it was aimed that changes would be implemented by May 2017;
- The programme itself was on track but some activities were one month behind;
- Procurement and contract management were big issues. Members were assured that officers had a good view of all contracts, and there was a contracts register. It was ensured that good quality outputs were there from the start of the contract;
- It was important to build up relationships with the suppliers to manage issues rather than just imposing penalties;
- It was queried whether any problems with NHS contracts was envisioned due to the integration with NHS functions. Members were advised that there were a number of national contracts, and many services were commissioned from inside of Lincolnshire. It was noted that the Council was now in a better position with the CCG's in terms of relationships than ever before, meetings were held every month, and services would be commissioned jointly through a Joint Commissioning Unit;

RESOLVED

1. That the effectiveness of the Council's Local Code of Governance be noted;
2. That the progress made on the Annual Governance Statement be noted.

49 WORK PLAN

The Committee received a report which provided information on progress on agreed actions and its work plan up to 31 March 2014.

Members were reminded that a workshop would be held following the meeting on 31 March 2014 to assess the effectiveness of the Audit Committee. It was also noted that the work plan would be considered during this workshop in order to plan future work for the Committee.

RESOLVED

1. That the progress of agreed actions in Appendix A to the report be noted;
2. That the work plan set out in Appendix B to the report be noted;
3. That a self-assessment on the effectiveness of the Audit Committee be undertaken following the meeting in March 2014.

The meeting closed at 1.00 pm